

**DEPARTMENT OF FORESTRY  
CHARLOTTESVILLE, VIRGINIA**

**REPORT ON AUDIT  
FOR THE PERIOD  
JULY 1, 1998 THROUGH FEBRUARY 28, 2001**



## **AUDIT SUMMARY**

Our audit of the Department of Forestry for the period July 1, 1998 through February 28, 2001 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal control;
- no instances of noncompliance that are required to be reported; and
- adequate corrective action with respect to the prior year audit findings.

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BOARD MEMBERS

June 5, 2001

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Forestry** for the period July 1, 1998 through February 28, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures  
Revenues and Cash Receipting  
Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SAH/kva  
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## AGENCY HIGHLIGHTS

The Department of Forestry's (Forestry) central office is located in Charlottesville at the Fontaine Research Park. Forestry has six regional offices that are located in Waverly, Tappahannock, Charlottesville, Farmville, Salem, and Abingdon. Approximately 20 area offices report to the regional offices. In addition, Forestry manages three seedling nurseries in Augusta, Garland Gray, and New Kent and two state forest offices in Buckingham and Cumberland. Forestry receives funding from General Fund appropriations, Special Revenue funds, and federal grants. Special Revenue funds consist of revenue generated through nursery and timber sales, aerial release services, fire suppression services, and forest products taxes. Forestry expenses consist primarily of personal services, contractual services, and transfer payments.

Forestry protects and manages forest resources for Virginians with the following four programs:

**Forestry Operations** – Forestry protects forest resources, life, and property against forest fires through prevention, readiness, mobilization, detection, and suppression. In addition, Forestry provides marketing and utilization assistance to the forest industry and assists in the planning, establishment, management, and utilization of urban and community forest ecosystems. Through this program Forestry monitors and regulates forest activities such as harvesting and the use of herbicides to protect water quality. Forestry Operations also provides technical assistance to private landowners and state agencies on managing and protecting forests. General, Special Revenue, and federal funds support this program.

**Reforestation Operations** – Forestry operates tree nurseries, state forests, and a tree improvement program. Forestry's tree improvement program provides genetically improved tree seedlings. Forestry operates three nurseries that produce tree seedlings for private, industrial, and public landowners and receives funding primarily from seedling sales. Forestry uses the state forests as demonstration and educational areas for local landowners, forest industry, and public schools and universities. The state forests are self-supporting, primarily through timber sales, and also return 25 percent of gross receipts to counties in lieu of taxes.

**Forestry and Reforestation Incentives** – Forestry provides technical assistance, specialized forestry equipment, and forestry services to small timber owners through this program. Incentive payments provide financial assistance to forest landowners who have a maximum of 500 acres per project. General funds and forest product taxes provide the funding for this program.

**Financial Assistance** – Forestry provides financial aid for nonprofit volunteer fire companies and community forestry programs. Federal grants and contracts revenue support this program.

Revenues by funding source and expenses by program are included in the following table.

	Fiscal Year Ended June 30, 1999	Fiscal Year Ended June 30, 2000	July 1, 2000 through February 28, 2001
<u>Revenues</u>			
General Fund Appropriations	\$13,624,813	\$14,332,041	\$ 9,569,875
Special Revenue Funds	8,063,957	8,275,233	5,660,593
Federal Grants	<u>2,002,289</u>	<u>2,040,053</u>	<u>1,666,438</u>
Total	<u>\$23,691,059</u>	<u>\$24,647,327</u>	<u>\$16,896,906</u>
<u>Expenditures</u>			
Forestry Operations	\$17,997,388	\$19,600,309	\$12,754,224
Reforestation Operations	2,790,106	2,944,484	1,662,750
Forestry and Reforestation Incentives	2,820,269	2,874,128	1,425,140
Financial Assistance	<u>237,648</u>	<u>262,863</u>	<u>205,808</u>
Total	<u>\$23,845,411</u>	<u>\$25,681,784</u>	<u>\$16,047,922</u>

Cash balances carried forward from previous years were used to fund differences between revenues and expenditures.

DEPARTMENT OF FORESTRY  
Charlottesville, Virginia

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